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FM AMEMBASSY KINGSTON
TO RUEHC/SECSTATE WASHDC 7115
INFO RUCNCOM/EC CARICOM COLLECTIVE
RUEATRS/DEPT OF TREASURY WASHDC

UNCLAS SECTION 01 OF 02 KINGSTON 001086

SENSITIVE

SIPDIS

DEPT PASS TO USTDA

STATE FOR WHA/CAR (ACADIEUX) (VDEPIRRO) (WSMITH)
WHA/EPSC (MROONEY)
INR/RES (RWARNER)
EEB/TRA
EEB/IFD/ODF

TREASURY FOR ERIN NEPHEW
DEPARTMENT PLEASE PASS TO USTDA FOR PATRICIA ARRIAGADA

E.O. 12958: N/A

TAGS: [EAIR](#) [PREL](#) [ECON](#) [ETRD](#) [EINV](#) [IBRD](#) [IDB](#) [JM](#) [XL](#)
SUBJECT: AIR JAMAICA: FUTURE PLANS AND BUYERS

REF: A) KINGSTON 1058
B) KINGSTON 1016
C) KINGSTON 401
D) KINGSTON 542
E) KINGSTON 21

SUMMARY

1. (SBU) On December 17 Econoff met with Air Jamaica (AJ) CEO and President Bruce Nobles, who outlined his plan for restructuring the beleaguered airline in a lead up to divestiture. The Government of Jamaica (GOJ) is still hoping to have a buyer lined up by March 31, although the actual deal may close later. Three strategic financial firms appear to be interested, as Nobles implements changes to improve service and cut costs. END SUMMARY.

Un-Named Potential Buyers

2. (SBU) Nobles said there are at least three entities that are interested in buying AJ; one is a pure financial company with no prior aviation experience, and two others are strategic financial firms that have done business in the aviation sector, but have not owned airlines. He said if the airline is sold with a clean balance sheet (the GOJ assumes all existing debt of nearly USD 550 million) it could be recapitalized for USD 50 million and operate at a profit. COMMENT: There was speculation early in 2008 that one of the firms might be the U.S. private equity firm Blackstone Group, which has fared better than many of its private equity peers in the recent global economic downturn, having closed a USD 21 billion fund in August 2007, and according to The Economist raised another USD 9 billion in 2008. Jamaican-born billionaire Michael Lee Chin, whose firm AIC owns Jamaica's National Commercial Bank (NCB) and has made recent tourism-oriented real estate investments in the Port Antonio region of the island, is also considered to be a potential buyer. Chin said in an interview on December 11 with Caribbean Business Report that the airline had to be sold or "dismantled;" he added that he would never invest in the airline because you cannot control your major costs such as fuel prices. Chin is a shrewd investor and would never telegraph his move early if he were actually interested in AJ. END COMMENT

PLAN B?

3. (SBU) Despite press reports, Nobles says he does have a plan B for the airline, saying even if all potential buyers decline, the airline will go through enough changes to be able to continue. He

added that AJ is a USD 350 million company with 2,253 employees which pays wages and benefits worth USD 78 million; if it were to close it would be a serious challenge for the economy. Fifty percent of AJ passengers are Jamaicans returning to see family and 50 percent are tourists. He said there is a strong customer base for this airline and there is no reason it can't be profitable. COMMENT: High level GOJ officials, including the Minister of Finance and Public Service Audley Shaw, have said as recently as December 12 that the airline, which lost 173 million last year and stands to lose more this year, will have to be closed if it cannot be divested, arguing the GOJ cannot afford the ongoing costs (reftels). In reality it will be politically difficult for the Jamaica Labour Part (JLP)-led government to make the move to actually close the airline, if it comes to that. END COMMENT.

Improvements Made

14. (SBU) Over the years AJ gained a reputation for being unreliable, but Nobles said in the two months since he returned (Nobles also ran the airline when it was owned by Butch Stewart, reftels) he has managed to have 99 percent of all flights departing on time. On-time arrivals have improved to 60 percent, with 99 percent of all flights arriving within one hour of designated arrival time. He is currently conducting a detailed review of the route structure and may soon decide to change certain routes - Atlanta will likely be cut and flights to/from New York may be expanded.

15. (SBU) He believes there are still a number of inaccurate negative perceptions about the way the airline is run, saying many people claim AJ employees are overpaid, despite the fact that employee cost per a average seat mile is below the industry average and below the

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average of U.S. airlines. He added that pilots are paid in center of the average for the industry. He did add that he has told pilots they must cut 15 percent of pilot related expenses (USD 3 million), but this does not mean pay cuts, but more likely additional flying time. AJ pilots now fly 40 hours per month, but get paid for 72 hours.

Politics - A Binding Constraint

16. (SBU) Nobles said his main objective at the airline was to prepare it for sale, but if the new owners wanted him to stay on he would consider it. He said his end game was profitability - but politics is a binding constraint to this objective. Mike Henry, Minister of Transport and Works and Tourism Minister Edmond Bartlett have demanded that Nobles open new routes which do not make economic sense for the airline. PM Golding also requested Nobles arrange for AJ to fly students to and from Cuba for the holiday season, an expensive request. Nobles said he is willing honor the request only if the costs are not absorbed by the airline. He also said the Board of Directors are fairly good but also exert political influence. Among these he mentioned the powerful Chairman Shirley Williams, a JLP insider and who at times operates as if she is an executive director, although she has no prior experience in the airline business.

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